Response in my personal capacity to the Consultation Paper on Sustainability Reporting by the IFRS Foundation

by

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I. Introduction

As the former Chief Executive of GRI from 2017 to 2020, I worked on establishing global ESG (Environmental, Social and Governance) disclosure standards in use by the majority of companies reporting sustainability information. Before joining GRI, I worked for more than 20 years on corporate sustainability issues for Intel, Apple and AMD, all of which reported on these matters. Prior to that, I worked for 10 years for the United States Federal Government on the creation of policies for environmental protection. I am currently the Executive Vice President and Chief Sustainability Officer for Persefoni AI – the intelligent carbon footprint management & reporting platform.

I will draw on these experiences to respond to this consultation.

II. The Past and Present of Sustainability Reporting

I worked on my first sustainability report in 1995 for Intel Corporation. The practice was in its infancy and very few companies voluntarily disclosed information on their environmental or social impact. Those companies that championed this effort early did so to establish a record of responsibility and stewardship. 25 years later, the corporate responsibility motive remains very powerful. This driving force has contributed countless benefits to people and the planet, and continues to be the dominant motivator for environmental, social, and governance (ESG) disclosure. This history is important context as the IFRS Foundation considers establishing new disclosure standards for ESG matters.

More recently, many of the largest global institutional investors are demanding ESG disclosure from their portfolio companies. Some are motivated by responsibility, but as certain ESG issues have become material to corporate financial performance, companies are increasingly obligated to report on these topics to their investors.

The clearest sign of this shift is the rapid adoption of the carbon reporting framework issued by the Task Force on Climate-related Financial Disclosures, created by the G20 Financial Stability Board. Since the proposal was finalized in 2017, more than 1,500 organizations have supported the TCFD recommendations (a year over year increase of more than 85% compared with 2019). The latest status report states that *"Nearly 60% of the world's 100 largest public companies support the TCFD, report in line with the TCFD recommendations, or both."*

The shift from solely responsibility motives to incorporate financial motives has inspired a range of activities designed to meet the ESG disclosure needs of investors. Specifically, there are two major trends addressing this shift in priorities:

> Mandatory Disclosure: Policy makers are increasingly requiring ESG disclosure around the world. For example, the European Union (EU) will revise its 'Non-Financial Reporting Directive in 2021 which will require ESG disclosure from companies doing business in the EU.
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> ESG Standards: As the demand for mandatory ESG disclosure increases, so has the demand for globally accepted disclosure standards. Of course, there are already ESG disclosure standards in common use today because, as mentioned, the practice of ESG disclosure is well established. Of the ESG disclosure standards currently in use, GRI is the most widely adopted. Others, such as the standards issued by the Sustainability Accounting Standards Board (SASB), are rapidly gaining adoption as they are backed by major asset managers. The recent progress by the existing ESG standards and frameworks organizations toward collaboration and convergence is

laudable and forms a welcome foundation for the IFRS Foundation's proposal to take the next step toward a globally accepted ESG disclosure regime.

As the IFRS Foundation takes stock of the current landscape of ESG disclosure standards, it has garnered support from: regulators, the accountancy profession, the existing standards organizations, investors, and companies. This plurality support clearly signals the need for globally accepted ESG standards, and the IFRS Foundation is best positioned to move forward with the development of the Sustainability Standards Board. As I have stated publicly and will reiterate here, I strongly support this action. The benefits of globally accepted ESG Standards will improve the quality and comparability of disclosure, unlocking investment and trade that will improve, rather than ignore, the sustainability needs of society.

III. Key challenges to address

This venture is not without significant challenges. The IFRS Foundation should develop strategies to address the following key issues as it moves forward to develop ESG standards:

1. **Materiality**: The mission of the IFRS Foundation is *"to develop standards that bring transparency, accountability and efficiency to financial markets around the world."* This remit is a subset of the broader concerns of sustainability. While the IFRS role in developing sustainability standards is critically important, it will not be sufficient to cover sustainability concerns alone, nor should it be construed as such. It is essential that the IFRS Foundation connects its ESG standards development work to standards that are established to create transparency around sustainability concerns that may not yet be financially material to companies or investors. This connection must ensure common accounting procedures, disclosures (qualitative and quantitative), assurance criteria, and other essential technical aspects. Many companies already report on ESG matters that are beyond the scope of financial materiality and this connection will make such reporting seamless. In addition, this connection

will lessen reporting burdens, as ESG matters become financially material in the future. Finally, this connection will help improve the quality of disclosure, as assurance providers will have common procedures across all forms of ESG reporting.

2. **Comparability**: Many have criticized ESG disclosure for its lack of comparability between companies and industrial sectors. The IFRS proposal will help address this issue, but more will be needed to ensure comparability. Sustainability, unlike financial matters, includes a vast array of disparate issues that cannot be compared or offset against one another. An example is reporting on gender diversity vs. greenhouse gas emissions. Both are well within the scope of sustainability reporting, but obviously can be neither compared nor offset, as they are very different issues with distinct accounting procedures, data sources, management systems, and impacts. Since such factors cannot be reasonably merged into a 'sustainability score', they must be compared within the boundaries of the topic. The IFRS should make these distinctions clear and emphasize the lack of comparability between disparate issues. In addition, the IFRS should consider the conclusions of the International Business Council of the World Economic Forum report: Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation. This report outlines a series of 21 core metrics and 34 expanded metrics drawn from existing ESG standards. Setting aside the content of the metrics selected in this report, there are a few key concepts that should be considered by the IFRS:
    a. **Focusing on universal metrics**: Universally applied disclosures will provide greater consistency of reporting across sectors and thus increase quality and comparability of reporting. There is a valid concern that universal metrics are not material to all reporting entities, but such concerns are outweighed be the benefits of greater comparability, consistency, and quality.

b. **Utilizing existing standards:** As mentioned at the start, ESG reporting is an established practice. Drawing from existing standards will minimize disruption, confusion, and reporting burden.

c. **Focus on quantitative disclosures:** While qualitative statements are essential, they are more difficult to compare and analyse. Quantitative disclosures, on the other hand, can be normalized to various business metrics, and compared across peer companies and industrial sectors. Such comparisons will fuel a virtuous cycle of competition to improve the performance of these metrics.

d. **Elective metrics:** The broad scope of sustainability issues ensures that some topics will be only relevant to subsets of reporting companies. As mentioned earlier, it is crucial for the IFRS foundation to create a strategy that enables the creation of elective ESG disclosure standards that are material to only a subset of companies and/or could become broadly material in the future.

3. **Capabilities:** As discussed above, the ESG or sustainability field encompasses a very broad range of disparate topics. Historically, the IFRS Foundation has not developed standards for these topics and thus does not have staff with deep experience in these matters. To develop credible ESG standards, it is essential that the IFRS Foundation hires staff with these capabilities. Moreover, the development of each standard must engage recognized experts in each respective topic. Such experts should be geographically diverse and represent all relevant sectors and stakeholders. IFRS's core competencies in the development of globally accepted disclosure standards should guide the overall process.

4. **Connection to SDGs**: As IFRS takes on ESG standards, it must also forge and maintain connections to the sustainability community. This is critical. The Sustainable Development Goals (SDGs) – unanimously ratified by all countries – form the framework for this connection.

The IFRS must map its ESG standards to the SDGs and, moreover, foster the forward looking ESG standards discussed above to help enable accomplishment of these global goals. In addition, the IFRS Foundation should support and align with the movement toward 'science-based targets.' Finally, the IFRS should carefully monitor and potentially align to related science-based goals, such as those emerging from the 'the Global Commons Alliance' initiative. These connections are crucial to the credibility, acceptance, and support of the IFRS Foundation's ESG standards, and will enable accountability toward commonly accepted sustainability goals and targets.

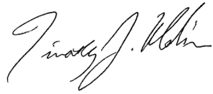
5. **Connection to policy makers**: Mandatory reporting and assurance is an essential element toward a robust and workable ESG disclosure regime. Thus, the IFRS must make every effort to ensure its ESG standards, and the related forward-looking standards mentioned above, are authorized, refenced, and required by policy mandates to the greatest extent practicable around the world. These mandates should require assurance for ESG disclosures.
6. **Technology**: It is essential that the IFRS stay abreast, and to the extent practical, incorporate the latest reporting technology into its sustainability standards activities. Information technology will not only accelerate and reduce the burden of reporting, it will make the resulting reports more actionable. Technology will also improve the quality of reporting, thus making the results more valuable to investors and stakeholders and more effective in driving sustainability benefits.

IV. Concluding remarks

I have worked in the sustainability field for more than 35 years within government, the private sector, and the non-profit sector. It gives me immense satisfaction to witness the evolution of the sustainability movement over these years. The IFRS proposal represents a major milestone in this evolution and I strongly support the proposal. By adding ESG standards to its remit, the IFRS Foundation is signalling

that sustainability has moved into the mainstream of global commerce. With this recognition, we can better align capitalism with the needs of people and our planet.

Respectfully submitted by



Timothy J. Mohin December 31, 2020